



Newsletter

OCTOBER 2025

Freddi Eberhart & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.

This Month:

Upcoming dates:

October 15

- Filing deadline for extended 2024 individual and C corporation tax returns

Tax rules aren't set in stone...what worked last year might not work this year. If you're not keeping your tax strategy up to date, you could be inviting a bigger bill from the IRS. In this month's issue, we're breaking down practical tax tips to help you stay ahead and keep more of what you earn.

Also learn how to lower your property tax bill and some clarification on One Big Beautiful Bill.

As always, should you have any questions, please call. And feel free to forward this information to someone who could use it!

Key Tax Planning Topics to Consider

The U.S. tax code is constantly changing. What saved you money last year might cost you this year. Between shifting income thresholds, changing deduction rules, and overlooked credits, you now need to stay focused on your tax plan throughout the year. Here are several bits of tax wisdom that can help you lower your bill to the IRS.

Phaseouts matter (a lot). A lot of tax breaks, such as child tax credits, tax benefits for college costs, or the new senior deduction don't disappear all at once. Instead, they phase out slowly as your income rises. This means earning a bit more could quietly cost you some of these benefits.

What you can do: *Keep an eye on how much income you're showing on paper and how it will impact these phaseouts. You might be able to stay in the sweet spot so you don't lose the value of your deductions or credits by putting more into your retirement account or timing when you receive certain payments.*

Are itemized deductions going the way of the dinosaur? Not so fast! Yes, the standard deduction is now higher than ever (\$31,500 for married couples, \$15,500 for singles in 2025), which has made itemizing less common. But with an increase of the state and local tax (SALT) deduction from \$10,000 to \$40,000, you may be shifting back to itemizing your deductions without realizing it.

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Key Tax Planning Topics to Consider (Cont'd)

What you can do: *Don't assume you'll be taking the standard deduction again this year. Add up your potential itemized deductions, especially if your expenses vary, to see how close you are to being able to itemize. Consider bunching charitable contributions or property taxes into one year to clear the standard deduction hurdle.*

Timing is everything (especially with capital gains). If you sell assets held longer than a year, you'll likely qualify for long-term capital gains rates (0%, 15%, or 20%). But miss that time by even a day and you could pay ordinary income rates, which can be nearly double. Strategic timing can also help you harvest losses to offset gains and reduce your overall tax bill.

What you can do: *If possible, hold investments that are profitable for at least one year and a day before selling to qualify for lower tax rates. Use end-of-year tax-loss harvesting to offset gains, and stagger sales across tax years if needed.*

Don't sleep on the Qualified Business Income deduction. If you're a small business owner, self-employed, or even a gig worker, you may be eligible for a 20% deduction on your qualified business income. Planning how and when revenue hits your books could make or break your eligibility for this significant deduction.

What you can do: *Review how your business is structured and how much income you're reporting. You may be able to reduce taxable income through retirement contributions, shifting income between years, or reclassifying your business activities.*

Tax-deferred doesn't mean tax-free. Traditional 401(k)s and IRAs offer tax deferral, not tax elimination. When you withdraw funds in retirement, you'll pay ordinary income tax on the distributions. If you expect to be in a high tax bracket in retirement, it may be a better idea to contribute to a Roth account now and pay taxes up front.

What you can do: *Schedule a planning session to discuss whether diversifying your retirement accounts between traditional and Roth makes sense for your situation. Also consider planning for the timing of distributions from these accounts to be as tax efficient as possible. Run long-term tax projections to decide which type of contribution makes sense today. Consider partial Roth conversions during lower-income years.*

Tax planning isn't a once-a-year scramble, but rather a year-round strategy. And with these pieces of prevailing tax wisdom, you can be better prepared to cut your tax bill. Please call if you have any questions about your tax situation.

Property Taxes: What Every Homeowner Should Know

Property taxes are still on the upswing in many parts of the U.S. To help get a handle on your property taxes, here's a look at what goes into determining your bill and a few ideas that may help to reduce it.

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Property Taxes: What Every Homeowner Should Know (Cont'd)

Background

Property taxes are typically calculated using two factors:

- The assessed value of your property (set by your local assessor)
- Your local tax rate (set by schools, counties, fire departments, etc.)

***Why this matters:** Even if your home's value doesn't change, your tax bill can go up if any of the taxing authorities raise their rates. And while setting the tax rates is usually a legislative process, establishing the value of your property often has judgement applied.*

Ideas to lower your property tax bill

- **Understand and adhere to the calendar.** Challenging the value of your property requires an understanding of the process for doing so AND hitting the proper deadlines. If there's an appeals process, know it and make sure you meet their deadlines or you could be out of luck for that year.
- **Challenge your property's assessed value.** You have the right to appeal your property's assessment by filing a formal appeal with your local assessor. If you can show your home was assessed for more than it's worth compared to similar homes, you might get your tax bill reduced. If you want to appeal, you need to act fast. There are typically just a few weeks each year to appeal your assessment. So mark the date and gather evidence early if you plan to dispute it. But do your homework! Collect actual sales of similar properties that show a lower sales price, and be ready to defend the condition of your property if it is an older home. Assessors are quick to dismiss complainers with no facts to back them up.
- **Claim all exemptions and eligible tax breaks.** Contact your local assessor's office to see what exemptions you can claim. Many states and counties offer breaks for veterans, people with disabilities, low-income households, older residents and those in designated areas like historical districts or disaster zones.
- **Compare local tax rates before you buy or move.** Property taxes are determined locally by counties, cities, or school districts, which means two identical homes in nearby ZIP codes can have drastically different tax bills. So always check the local tax rate before you buy or move. Look at the history of property taxes in your target neighborhood and see how it changed over the past several years. Then compare it with other homes in the area to ensure the rate increase is consistently applied.

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Property Taxes: What Every Homeowner Should Know (Cont'd)

- **Calculate the tax impact of renovations before building.** Adding a new deck or renovating your kitchen may increase your home's assessed value, especially if the county finds out through permits or a property inspection. So even if you don't sell your home, upgrades can mean a bigger tax bill. Some areas reassess properties automatically after building permits are pulled. So always factor in long-term tax implications when upgrading your home.
- **Review your lot details for unused land.** Your property tax bill covers not only the value of your house, but also the value of your land. If part of your property can't be used, like wetlands, steep slopes, or areas with easements, ask your assessor if your bill can be adjusted.

Property taxes are one of the few taxes you can actually fight and get lowered. But you can't do that if you don't understand how the system works. So don't just pay the bill without looking at it. There's often money to be saved if you understand the details.

NEW! Tax-Free Overtime

Understanding the new deduction

With the passage of the One Big Beautiful Bill Act (OBBBA) of 2025 there is the ability to receive a deduction for overtime pay from your federal tax obligation. Here is a recap of the rule and some tax tips to ensure you receive the full benefit of the deduction.

The Tax Law Change

From 2025 through 2028 there is a new above-the-line tax deduction of up to \$12,500 (\$25,000 for joint filers) for qualified overtime compensation. Overtime is the half portion of being paid time and a half and is as defined by the Fair Labor Standards Act. The benefit begins to phase out when your modified adjusted gross income exceeds \$150,000 (\$300,000 for joint filers). It phases out by \$100 for every \$1,000 you exceed the amount. So the phaseout ranges are:

Single: \$150,000 – \$275,000

Joint filer: \$300,000 - \$550,000

*Example: Ima Working, a single taxpayer with \$10,000 of overtime pay and MAGI of \$170,000 can deduct \$8,000 of her overtime pay. \$10,000 overtime pay minus \$2,000 or $(\$170,000 - \$150,000) / 1,000 * \$100$.*

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NEW! Tax-Free Overtime (Cont'd)

To receive the benefit:

- You must have a valid, work eligible, Social Security Number
- The overtime is to be designated on a W-2 (or a 1099 in the case of contract labor overtime)
- If married, you must file a joint tax return

Some tips

- **Track your overtime hours.** This mid-year law change requires some historic research back to the beginning of the year. Get your payroll records and add up your historic overtime hours and pay. You will need this to ensure you are getting credit for all your overtime pay.
- **Employers are in a jam.** They are required to report these overtime hours on a W-2 or similar form. But the form does not yet have the overtime reporting mechanism. So what to do? Congress has established a reporting transition rule for 2025 and the IRS will come out with approved alternative reporting. This makes tracking your own overtime pay even more important, as this could be messy in 2025.
- **Keep overtime, overtime.** Congress is tasking the IRS and Treasury to put controls in place to ensure work is not reclassified as overtime and you will want to ensure your overtime work is properly paid and recorded given the additional tax benefit.
- **Review your withholdings.** With this additional deduction, you may be over withholding your federal tax. Now is a great time for a review.
- **Pay attention to your state.** Every state will need to determine whether they follow the new federal rules. Some will, some won't so stay alert.

NEW! Tax-Free Tips

The One Big Beautiful Bill Act (OBBBA) makes tip income tax-free. But as with any new tax law, the fine print matters, and some of these details still need clarification.

The basic facts

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NEW! Tax-Free Tips (Cont'd)

From January 1, 2025 through December 31, 2028 you can deduct up to \$25,000 as a deduction equal to the amount of qualified tips you receive during the year. These tips must be included on IRS approved statements furnished to the individual in order to take advantage of the deduction.

There is an income limit of \$150,000 for single filers and \$300,000 for joint filers. This income limit is modified adjusted gross income, including the tips. The deduction amount is reduced (but not lower than zero) by \$100 for each \$1,000 in excess of these amounts.

***Example:** Joanie Tipster, a single filer, with modified adjusted gross income of \$155,000 is \$5,000 in excess of the limit. So her tip deduction will be reduced by \$500 which equals $(\$5,000 / \$1,000) \times \$100$.*

Qualified Tips

To qualify as a tip:

- The tip must be given in the **ordinary course of business**
- It must be paid **voluntarily**
- Is **not subject to negotiation**
- It is **determined by the payer**

What business and services qualify?

A list of qualifying business will be published on or before December 31, 2025, however the tax bill specifically mentions the following:

- **Food & beverage** for consumption, if tips are customary
- **Barbering & hair care**
- **Nail care**
- **Esthetics** (services like Body and Spa Treatments)

Of special note, if you work in a specified service trade or business (SSTB) you MAY NOT take the tip deduction. A SSTB is a type of business that provides services in fields such as health, law, accounting, consulting, and financial services.

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NEW! Tax-Free Tips (Cont'd)

The fine print matters.

To receive the deduction:

- **It must be reported.** This means this tip income will ultimately end up on a W-2. This means you must have a valid Social Security number.
- **They must be cash.** The IRS defines cash to include cash, credit card, debit card, and digital payment tools. This then implies that any non-cash tips and receipt of cyber currencies would not qualify.
- **It will still be taxed (somewhat).** While you will receive a tip deduction on your tax return, that tip income will still be subject to Social Security and Medicare taxes.
- **You must have income.** The deduction will reduce your taxable income. But if your taxable income is already at or below zero (because of other tax breaks like the standard deduction) there really is minimal to no benefit for this new deduction.
- **If married, file jointly.** The benefit does not exist for married filing separately.
- **Tip behavior cannot be created.** If your employer did not customarily make tips prior to this law, they cannot suddenly start tip behavior to take advantage of the benefit.

What action to take:

If you think you may qualify for this deduction, here are some tax tips to consider:

- **Get your reporting in order.** Remember it's already mid-year. You'll need to prove your tips to get this deduction. So start getting your tip records in order, then you can reconcile your tip income with your employer's reporting of your tips.
- **The large-party tip.** Many restaurants add an automatic tip when a dinner party is larger. On the surface the bill seems to exclude these tips from the deduction because the tip is no longer voluntary. Until there is clarification, it might make sense to get your employer to consider an alternative practice or figure out how to confirm the voluntary nature of such a tip.
- **Your tips are not covered!** There are a large number of jobs that regularly receive tips that are not mentioned in the bill. Bell hops, cabbies & uber drivers, and delivery jobs to name a few. Do not lose heart, as the IRS is tasked with figuring out which jobs should be included but won't have to do so until on or before the end of the year. Hopefully it will be completed within 90 days.

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NEW! Tax-Free Tips (Cont'd)

- **Cash not reported.** If you receive cash but it's not reported, it can't be used as a deduction. So do the math for your situation and consider properly recording this tip income.
- **Patience is required.** There will be clarification of these rules from the IRS within the next 90 days. So even if your tip income is not expressly included as of now, still keep track of it as it could easily make the IRS's list.

Congress is very aware that there will be the temptation to reclassify taxable income into tip income to take advantage of this law change, so it's tasking the IRS to develop guidelines to keep this from happening. Stay tuned. There is more to come.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.